# miraculins

ANNUAL REPORT

2003

# 2003

Miraculins is dedicated to developing improved diagnostic and therapeutic products with an initial focus on cancers of the digestive, genital and urinary systems.

## TABLE OF CONTENTS

# COMPANY PROFILE

**Miraculins Inc. (TSX-V: MOM) is a biotechnology company focused on research and development using its proprietary BEST™ platform for the screening and identification of target proteins and peptides related to diseases. The Company is developing products for the diagnosis and treatment of select cancers.**

Miraculins is dedicated to developing improved diagnostics with an initial focus on cancers of the digestive, genital and urinary systems. The medical community is in need of minimally invasive diagnostics that provide a quick and accurate window into a patient's health. For example, the standard of care for prostate cancer patients would be dramatically improved by more accurate and earlier diagnosis primarily because it would reduce the prevalence of unnecessary biopsies and their associated costs and risks. The Company's platform also has the potential to identify markers for therapeutic development, the discovery of which would be a significant breakthrough.

The idea for Miraculins began several years ago, when Dr. Phiet Bui and Dr. Albert Friesen began discussing the possibility of looking at the macromolecular profiles of bodily fluids as evidence of a person's state of health. The Company commenced active operations in the early part of 2002 when scientific and financial resources became available to make that vision a reality. Dr. Bui and Dr. Friesen provide outstanding leadership to Miraculins, and the Company strongly benefits from a management team that has considerable knowledge of the industry drawn from involvement with major companies from the discovery stage through to clinical trials and large-scale commercial production.

# PRESIDENT'S MESSAGE

In keeping with our corporate development plan, 2003 was an eventful and productive year for Miraculins Inc. The fourth quarter of 2003 was the most exciting quarter in company history and we fully expect 2004 to follow suit, culminating in the most important year since Miraculins was created.

The past year saw us take significant steps towards our ultimate goal of utilizing the potential of proteomics to improve the standard of care for cancer patients. The Company became publicly traded in 2002 with the initial goal of validating our technology, and we were able to complete this milestone in the late stages of 2003. The collective total of our scientific progress and intellectual property is now known as Miraculins' proprietary Biomarker Evaluation Strategy and Technology (BEST™) platform.

The Company's BEST™ platform is based not only on proteomics, but on a method of applying proteomics to simplify the questions being asked in the target discovery stage. A new chapter in Miraculins' corporate development was opened with the completion of validation testing. The Company will now turn its attention to working with clinical patient samples and applying the BEST™ platform to multiple cancers along with potentially numerous other disease states.

The year also saw us continue to lay the foundation for rapid growth and product development. The Company was proud to add Dr. John Wilkins, Director of the Manitoba Centre for Proteomics, to our growing Scientific Advisory Board. We remain committed to developing a superior intellectual base and expanding relationships with industry experts.

The Company has stayed true to its development plan while conserving its start-up capital. Looking ahead, Miraculins is extremely enthusiastic about the potential for growth that comes with additional financial resources. In fact, as this report goes to print, the Company has closed a $2 million equity financing which will allow us to meet several important milestones this year. The achievement of these milestones should provide a strong increase in value for our shareholders.

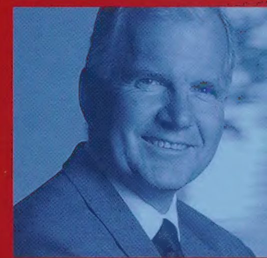
The true purpose of Miraculins is to improve people's lives. We realize we are still in the early stages of this voyage, but with the support of our shareholders we are extremely excited about the journey.

Phiet T. Bui

**Dr. Phiet T. Bui**
*President & Chief Scientific Officer*

# CHAIRMAN'S MESSAGE

## It continues to be a privilege to be associated with Miraculins Inc.



At one time or another, most of our lives have been touched by cancer. With over 100 separate types of the disease, cancer remains the number two killer in the developed world, a problem that is compounded by inaccurate diagnosis and inconsistent treatment results. Miraculins is just one of the many corporations, organizations and individuals around the globe that are fighting cancer, but we believe the Company has an excellent opportunity to contribute substantially to the overall diagnosis and treatment of this terrible disease.

Miraculins' optimism stems from a unique approach to product development based upon a distinctive method of rationalizing the biomarker discovery process. The Company is also proud to capitalize on unique regional advantages including an outstanding and cooperative scientific community, a favourable economic climate and technical advantages in local sample populations. The Company is positioned as an emerging biotechnology company with reason for great enthusiasm.

We appreciate the loyalty and confidence shown by our valued shareholders. In turn, we strive to reward your investment by acting in the best interests of shareholders and providing excellent returns. On the heels of a year that saw some high profile corporate scandals, corporate governance remains a prominent issue in the eyes of investors. The Board of Directors of Miraculins is committed to the highest standards of ethics and corporate governance, believing that it is more than a matter of compliance, it is a matter of earning and maintaining the trust that shareholders have placed in us.

2004 promises to be another exciting year for the Company. We will strive to meet and exceed our stated R&D and business milestones, while making the Company a source of pride for all its valued stakeholders. On behalf of the Board of Directors, thank you for being a part of Miraculins.

**Dr. Albert D. Friesen**
*Chairman*

"The Board of Directors of Miraculins is committed to the highest standards of ethics and corporate governance, believing that it is more than a matter of compliance, it is a matter of earning and maintaining the trust that shareholders have placed in us."

Cancer refers to a family of diseases characterized by uncontrolled growth and spread of abnormal cells. The disease results from the malfunction of genes that control growth and cell division. The cause of cancer can include external factors (such as tobacco and chemicals) and internal factors (such as heredity). Approximately 1.5 million cases of cancer are diagnosed in North America each year, about half of which could be detected at an early stage. If all of these detectable cancers were diagnosed in the early stage, the 5-year survival rate would be about 95%.

- An estimated one in four North Americans will die of cancer
- 1,700 people in North America die from cancer every day
- The National Institutes of Health estimate the overall costs associated with cancer are greater than $170 billion each year
- Numerous studies have shown early detection of cancer saves lives and increases treatment options
- In Canada, 38% of all women and 41% of all men will develop cancer in their lifetime
- Prostate cancer is the most commonly diagnosed cancer in males; when discovered in its localized stage the 5-year survival rate is 100%
- Breast cancer is the most commonly diagnosed cancer in females; when discovered in its localized stage the 5-year survival rate is 97%

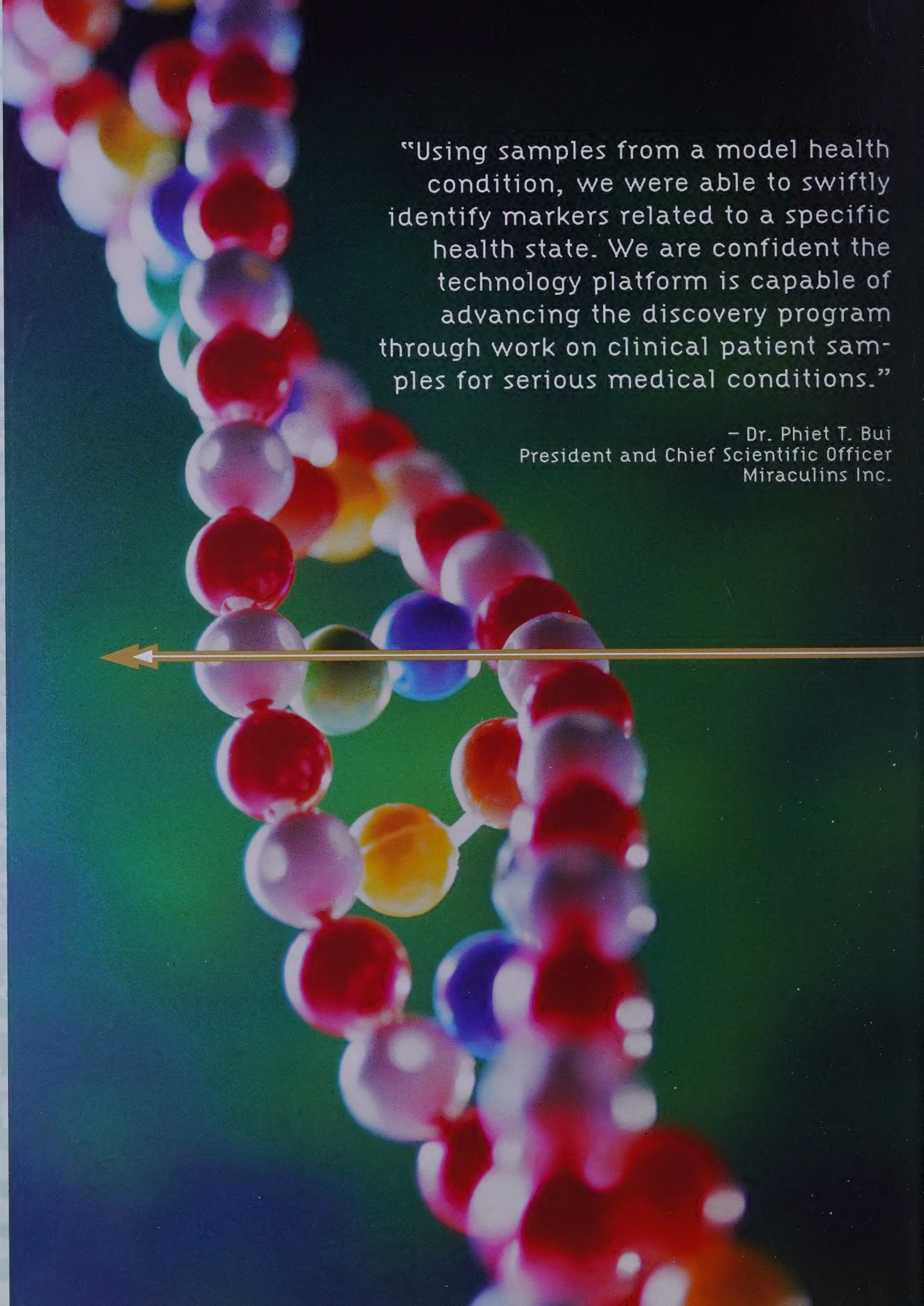
*Sources: Canadian Cancer Society 2003, National Cancer Institute of Canada 2003 and the American Cancer Society 2003*

# CANCER FACTS

## Estimated North American Incidence Rates for Select Cancers

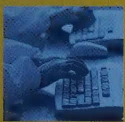
| FAMILY | SITE | NEW CASES/YEAR | DEATHS/YEAR |
|---|---|---|---|
| Genital System | Prostate | 239,700 | 33,100 |
| | Uterus Body | 43,800 | 7,500 |
| | Ovarian | 28,000 | 15,850 |
| | Cervix | 12,620 | 4,520 |
| | Testis | 8,300 | 435 |
| | Others | 7,400 | 1,800 |
| Digestive System | Colorectal | 165,500 | 65,400 |
| | Pancreas | 34,000 | 33,200 |
| | Stomach | 25,200 | 14,000 |
| | Liver | 17,300 | 14,400 |
| | Esophagus | 15,300 | 14,500 |
| | Others | 20,600 | 5,900 |
| Urinary System | Bladder | 62,400 | 14,050 |
| | Kidney | 36,000 | 13,350 |
| | Others | 2,400 | 700 |
| Breast | | 233,800 | 45,500 |

*Sources: Canadian Cancer Society 2003, National Cancer Institute of Canada 2003 and the American Cancer Society 2003*



"Using samples from a model health condition, we were able to swiftly identify markers related to a specific health state. We are confident the technology platform is capable of advancing the discovery program through work on clinical patient samples for serious medical conditions."

– Dr. Phiet T. Bui
President and Chief Scientific Officer
Miraculins Inc.



# MIRACULINS' BEST™ PLATFORM

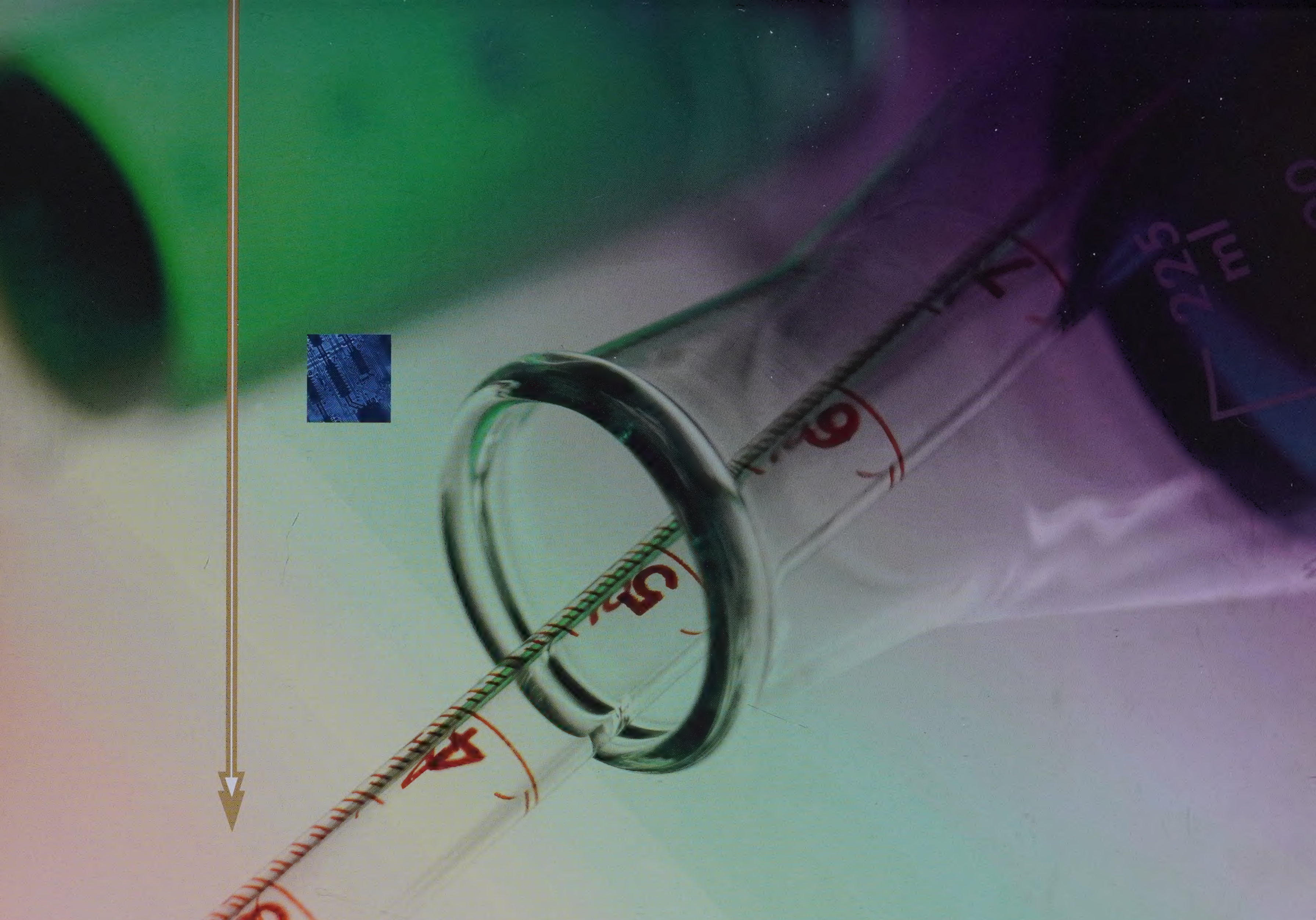
**The approach taken by Miraculins relies on both proteomics and traditional protein chemistry techniques. The proprietary technology is based upon conventional "biomarker" discovery whereby biological samples are carefully analyzed to identify subtle differences.**

A given sample can easily contain tens of thousands of different protein molecules; Miraculins' approach allows it to direct attention to the molecules of interest for their diagnostic and therapeutic capabilities.

The Company has validated its methodology through careful evaluation over the last several months working with a broadly studied and common clinical condition. Miraculins is excited to introduce its proprietary Biomarker Evaluation Strategy & Technology (BEST™) platform, referring to the sum of its intellectual property, including methodology, copyrighted data filtering software and pending patent applications.

The BEST™ platform has the potential to produce significantly more accurate and less invasive diagnostic tools. Furthermore, the technology has the potential to discover valuable therapeutic biomarkers, monitor the progression of a disease and predict the success of prospective healing strategies.

Miraculins is now turning its attention to applying the BEST™ platform to target diseases, initially prostate cancer. The technology is completely transferable to countless diseases and several other disorders are currently under evaluation for product development.



# MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis should be read in conjunction with the audited financial statements and related notes included herein that are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian Dollars unless otherwise noted. Annual references are to the Company's fiscal years, which end on November 30.

## OVERVIEW

Miraculins Inc. (the "Company") is dedicated to the discovery and development of diagnostics and therapeutic targets for select cancers. Currently, Miraculins is focused on developing improved diagnostics for cancers of the digestive, genital and urinary systems, initially with a focus on prostate cancer.

The medical community is in need of minimally invasive diagnostics that offer a quick and accurate window into a patient's health. The standard of care for several types of cancer would benefit from improved screening, staging and treatment monitoring.

Concurrent to the development of diagnostic tools, the Company's technology has the ability to identify biomarkers with potential use as therapeutic targets. The research strategy is designed to identify biomarkers (proteins and peptides) in bodily fluids that are expressed abnormally in victims of certain diseases. Analysis of the relative levels of these proteins or protein fragments (peptides) provides a window of opportunity for the development of useful diagnostics and therapeutics for target disorders.

## DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

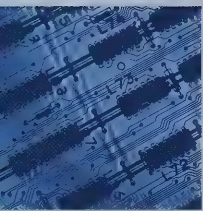
Miraculins has been a research and development company since inception. Due to expenditures related to its research and development, the Company anticipates that losses will continue at least until market approval of the Company's first product. During the year ended November 30, 2003, the Company had a net loss of $421,947 compared to $149,890 for the year ended November 30, 2002.

### RESEARCH AND DEVELOPMENT

Research and development expenditures include costs associated with the Company's research and product development program including salaries of research staff. The Company is in the development stage and devotes a significant portion of its financial resources to research and development activities. Research expenditures increased to $251,860 as compared to $92,586 in fiscal 2002. This increase in spending was the result of higher research salaries, consulting fees and equipment rental expenses due to the fact that 2003 was the Company's first full year of operations.

## GENERAL AND ADMINISTRATIVE

General and administrative costs include those costs not directly related to research and development. This includes expenses related to management services, and professional fees such as legal, audit and investor and public relations activities. General and administrative expenses were $168,982 as compared to $54,372 in fiscal 2002. These increased costs represent the growing infrastructure requirements associated with expanding to full time operations, including an increase in professional fees.



## INTEREST INCOME

The Company earned $11,732 in interest revenue on cash held during fiscal 2003 as compared to $3,366 for fiscal 2002. The increase was the result of increased average cash balances over the course of fiscal 2003.

## RESULTS

The results of operations for fiscal 2003 were in line with management's expectations and the increases over the previous year's totals in all categories were the result of increased business activity. The Company was in the initial stages of operations during the first three quarters of the prior year, and as a result, operations were limited. The loss of $421,947 recorded by the Company in fiscal 2003 amounted to a loss of $0.05 per share, an increase from $0.03 loss per share in fiscal 2002. The Company expects to incur a loss in 2004 as it continues its research and development program.

## LIQUIDITY AND SOLVENCY

As at November 30, 2003, the Company had working capital of $159,352. The Company did not perform any public or private financings during fiscal 2003. In March 2004, the Company addressed its cash position by completing a private placement for gross proceeds of $2,000,000 by the issuance of 4,000,000 units priced at $0.50 per unit. Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of $0.75 on or before six months from the date of closing of the offering.

## OUTLOOK

Miraculins expects to continue incurring operating losses as it further expands its research and product development program. The Company's strategic focus will be to apply its proprietary technology platform to clinical samples in order to identify biomarkers of diagnostic and therapeutic relevance. Miraculins may consider raising additional capital within the next year to fund operations over the long term.

## RISKS AND UNCERTAINTY

The Company's products and technology are currently in the development stage. The Company does not, and may never have, a commercially viable product approved for marketing. To date, the Company has not generated any revenue from sales. The timing of revenue generation is uncertain. The Company's financial condition will depend on its ability to obtain additional funding through the capital markets, which may not be available under favourable terms, or at all.

Other potential risk factors facing the Company include: the performance of key personnel, increased competition, and the ability to obtain patent protection and gain regulatory approvals.

# miraculins

## FINANCIAL STATEMENTS

2003

# AUDITORS' REPORT

**To the Shareholders of Miraculins Inc.**

We have audited the balance sheets of Miraculins Inc. as at November 30, 2003 and 2002 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"KPMG LLP"
(signed)

Chartered Accountants

*Winnipeg, Canada*
*January 12, 2004*

# BALANCE SHEETS

NOVEMBER 30, 2003 AND 2002

| | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 163,737 | $ 538,674 |
| Goods and services tax and accrued interest receivable | 24,677 | 27,143 |
| Prepaid expenses | – | 23,750 |
| | 188,414 | 589,567 |
| Property and equipment (note 4) | 35,227 | 45,608 |
| Patents | 4,791 | – |
| | $ 228,432 | $ 635,175 |

| | 2003 | 2002 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY:** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 29,062 | $ 42,790 |
| Shareholders' equity: | | |
| Capital stock (note 5) | 757,039 | 766,350 |
| Contributed surplus | 38,243 | – |
| Deficit | (595,912) | (173,965) |
| | 199,370 | 592,385 |
| Commitments (note 6) | | |
| | $ 228,432 | $ 635,175 |

On behalf of the Board:

_______________ *Director*

_______________ *Director*

See accompanying notes to financial statements.

# STATEMENTS OF OPERATIONS AND DEFICIT

YEARS ENDED NOVEMBER 30, 2003 AND 2002

| | 2003 | 2002 |
|---|---|---|
| REVENUE: | | |
| Interest | $ 11,732 | $ 3,366 |
| EXPENSES: | | |
| Amortization | 12,837 | 6,298 |
| General and administration | 168,982 | 54,372 |
| Research | 251,860 | 92,586 |
| | 433,679 | 153,256 |
| Loss for the year | (421,947) | (149,890) |
| Deficit, beginning of year | (173,965) | (24,075) |
| Deficit, end of year | $ (595,912) | $ (173,965) |
| Basic and diluted loss per share | $ (0.05) | $ (0.03) |

See accompanying notes to financial statements.

# STATEMENTS OF CASH FLOWS

YEARS ENDED NOVEMBER 30, 2003 AND 2002

| | 2003 | 2002 |
|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | |
| Operating activities: | | |
| Loss for the year | $ (421,947) | $ (149,890) |
| Adjustments for: | | |
| Amortization | 12,837 | 6,298 |
| Non-cash compensation recognized from stock options | 38,243 | – |
| Change in the following: | | |
| Goods and services tax and accrued interest receivable | 2,466 | (17,593) |
| Prepaid expenses | 23,750 | (23,750) |
| Accounts payable and accrued liabilities | (13,728) | (17,095) |
| | (358,379) | (202,030) |
| Financing activities: | | |
| Issuance of common shares, net of share issue costs | (9,311) | 393,115 |
| Change in loan payable to Genesys Venture Inc. | – | 53,179 |
| | (9,311) | 446,294 |
| Investing activities: | | |
| Purchase of property and equipment | (2,456) | (51,906) |
| Patent costs | (4,791) | – |
| Cash acquired on business combination (note 1) | – | 346,285 |
| | (7,247) | 294,379 |
| Increase (decrease) in cash | (374,937) | 538,643 |
| Cash, beginning of year | 538,674 | 31 |
| Cash, end of year | $ 163,737 | $ 538,674 |
| Supplementary information: | | |
| Non-cash transactions: | | |
| Value assigned to shares issued as consideration for acquisition of Miraculins, net of cash acquired of $346,285 | $ – | $ (53,111) |
| Conversion of loan payable to Genesys Venture Inc. to common shares | – | 80,000 |

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2003 AND 2002

## 1. BASIS OF PRESENTATION AND BUSINESS COMBINATION:

Magellan Biotech Inc. ("Magellan") was incorporated under the Canada Business Corporations Act on November 16, 2000 and its initial business purpose was to raise funds by prospectus sufficient to complete a major transaction as contemplated by Rule 44.501 of the Manitoba Securities Commission. On September 6, 2002, Magellan acquired all of the issued and outstanding common shares of Miraculins Inc. ("Miraculins"), a private biotechnology company primarily engaged in the discovery and development of therapeutics and diagnostics for human health disorders, in consideration for the issuance of 5,000,000 common shares of Magellan. Prior to the completion of the major transaction, Magellan did not have substantive business operations.

Legally, Magellan is the parent of Miraculins. However, as a result of the share exchange, control of Magellan passed to the former shareholders of Miraculins. For accounting purposes, this type of transaction is referred to as a "reverse takeover" in which Miraculins is deemed to be the acquirer. Accordingly, the net assets of Miraculins are included in the balance sheet at book values and the deemed acquisition of Magellan is accounted for by the purchase method with the net assets of Magellan recorded at their fair value at the date of acquisition.

The deemed purchase price of Magellan by Miraculins of $293,175 was the book value of Magellan as at September 6, 2002 as the fair values of Magellan's assets and liabilities were considered to approximate their carrying values. The purchase price was allocated to Magellan's identifiable net assets as follows:

| | | |
|---|---|---|
| Net working capital, including cash of $346,285 | $ | 293,175 |

On September 25, 2002, Magellan and Miraculins were amalgamated, with the company continuing as Miraculins Inc. (the "company").

## 2. DEVELOPMENT STAGE ENTERPRISE AND CONTINUING OPERATIONS:

The company, has as its sole activity the discovery and development of therapeutics and diagnostics for human disorders. To date, the company has no products currently in commercial production or use. Accordingly, the company is considered to be a development stage enterprise for accounting purposes. Since June 27, 1998, the date of incorporation of Miraculins Inc., through to November 30, 2003, the company has expended $344,447 for research.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The company has experienced operating losses and cash outflows from operations since incorporation of Magellan and Miraculins.

The company's ability to continue as a going concern is dependent on its ability to obtain sufficient funds to conduct its research and development, and to successfully commercialize its products. The outcome of these matters cannot be predicted at this time. These financial statements do not reflect adjustments to the carrying values of the assets and liabilities which may be required should the company be unable to continue as a going concern.

## 3. SIGNIFICANT ACCOUNTING POLICIES:

**(a)** Cash and cash equivalents:

Cash and cash equivalents include cash on hand and balances with banks as well as highly liquid short-term investments. The company considers all highly liquid short-term investments with terms to maturity when acquired of three months or less to be cash equivalents.

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

**(b)** Property and equipment:

Property and equipment are stated at cost. Amortization is recorded over the estimated useful lives of the assets at the following rates:

| Asset | Basis | Rate |
|---|---|---|
| Computer equipment | Straight-line | 30% |
| Scientific equipment | Diminishing balance | 20% |
| Office equipment | Diminishing balance | 20% |
| Leasehold improvements | Straight-line | 25% |

**(c)** Patents:

Costs incurred in obtaining patents are capitalized and amortized on a straight-line basis over the legal life of the respective patents, being approximately twenty years, or its economic life, if shorter. The cost of servicing the company's patents is expensed as incurred. No amortization has been recorded to date.

**(d)** Stock option plan:

The company has adopted the new Canadian standards for the treatment of stock-based compensation and other stock-based payments. Accordingly, the company uses the fair value based method to account for all stock-based compensation and other stock-based payments. The fair value is estimated at measurement date using the Black-Scholes option pricing model. For all options granted to directors, management, employees, management company employees and consultants under the company's stock option plan, compensation expense is recognized over the period(s) in which the related services were rendered. This recommendation was adopted effective December 1, 2002 and is applied to awards granted on or after the date of adoption. Had the company restated prior periods, pro forma net income for those periods would be unchanged.

**(e)** Research and development:

All costs of research activities are expensed in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the company believes a development project meets stringent criteria for deferral and amortization. No development costs have been deferred to date.

**(f)** Investment tax credits:

Investment tax credits relating to scientific research and experimental development are recorded as either a reduction of the applicable capital assets or credited in the statement of operations depending on the nature of the expenditures which gave rise to the credits. The investment tax credit is recorded in the period that the credit has been approved by Canada Customs and Revenue Agency.

**(g)** Income taxes:

The company uses the asset and liability method to provide for income taxes in the financial statements. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

substantive enactment. When realization of future income tax assets does not meet the more likely than not criterion then a valuation allowance is provided for the difference.

(h) Per share amounts:

Per share amounts are computed using the weighted average number of shares outstanding during the period including contingently issuable shares where the contingency has been resolved. For periods prior to the reverse takeover on September 6, 2002, the company is considered to have had 5,000,000 common shares outstanding equal to the number of shares issued by Magellan to Miraculin's shareholders on the transaction. The diluted per share amounts are calculated based on the weighted average number of common shares outstanding during the period, plus the effect of dilutive common share equivalents such as options and warrants. This method requires that diluted per share amounts be calculated using the treasury stock method, as if all the common share equivalents where the average market price for the period exceeds the exercise price had been exercised at the beginning of the reporting period, or at the date of issue, if later, as the case may be, and that the funds obtained thereby were used to purchase common shares of the company at the average trading price of the common shares during the period.

(i) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

4. PROPERTY AND EQUIPMENT:

| 2003 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Computer and office equipment | $ 3,588 | $ 1,584 | $ 2,004 |
| Scientific equipment | 12,536 | 3,496 | 9,040 |
| Leasehold improvements | 38,237 | 14,054 | 24,183 |
| | $ 54,361 | $ 19,134 | $ 35,227 |

| 2002 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Computer and office equipment | $ 3,545 | $ 532 | $ 3,013 |
| Scientific equipment | 11,187 | 1,119 | 10,068 |
| Leasehold improvements | 37,174 | 4,647 | 32,527 |
| | $ 51,906 | $ 6,298 | $ 45,608 |

5. CAPITAL STOCK:

(a) Authorized:

The company has authorized share capital of an unlimited number of common voting shares and an unlimited number of class A common voting shares.

5. CAPITAL STOCK (continued):

**(b)** Shares issued and outstanding are as follows:

| | Number of shares | Amount |
|---|---|---|
| Shares of Miraculins after reflecting a 100,000 for 1 stock split on May 15, 2002 | 6,000,000 | $ 60 |
| Private placement of shares for cash, net of share issue costs of $6,885 | 1,000,000 | 393,115 |
| Shares repurchased for cancellation for nominal consideration | (2,000,000) | – |
| Shares issued to Miraculins' shareholders on September 6, 2002 | 5,000,000 | 393,175 |
| Shares held by Magellan's shareholders | 2,650,000 | 293,175 |
| Shares issued for debt (i) | 200,000 | 80,000 |
| Balance at November 30, 2002 | 7,850,000 | 766,350 |
| Additional share issue costs related to private placement of shares | | (9,311) |
| Balance at November 30, 2003 | 7,850,000 | $ 757,039 |

(i) The company issued 200,000 shares as full consideration for the settlement of the loan, in the amount of $80,000, with Genesys Venture Inc.

(c) Options:

The company has a stock option plan which is administered by the Board of Directors of the company with stock options granted to directors, management, employees, management company employees and consultants as a form of compensation. The number of common shares reserved for issuance of stock options is limited to a maximum of 10% of the issued and outstanding shares of the company at any one time.

A summary of the company's stock option plan is as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Balance, beginning of year | 310,000 | $ 0.35 | 250,000 | $ 0.20 |
| Granted | 220,000 | 0.80 | 60,000 | 1.00 |
| Exercised | – | 0.00 | – | 0.00 |
| Cancelled or expired | (60,000) | 1.00 | – | 0.00 |
| Balance, end of year | 470,000 | $ 0.48 | 310,000 | $ 0.35 |
| Options exercisable, end of year | 347,500 | | | |

Options outstanding at November 30, 2003 consist of the following:

| Range of exercise prices | Number outstanding | Weighted average remaining contractual life | Options outstanding weighted average exercise price | Number exercisable |
|---|---|---|---|---|
| $ 0.20 - 1.25 | 470,000 | 3.29 years | $ 0.48 | 347,500 |

The compensation expense related to stock options granted under the stock option plan during fiscal 2003 to employees, management company employees and consultants aggregated $38,243. The

## 5. CAPITAL STOCK (continued):

compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

| | |
|---|---|
| Expected option life | 5 years |
| Risk-free interest rate | 2.87% |
| Dividend yield | – |
| Expected volatility | 80.58% |

The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the measurement date is measured and recognized at that date. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis over the period of service.

There were no stock options granted to directors or management of the company during fiscal 2003.

**(d)** Escrowed shares:

The company's issued share capital includes 4,386,000 shares which are currently held in escrow and will be released for trading in twelve instalments, releasable every six months in amounts ranging from 361,500 to 571,500 shares. The initial release of shares was September 10, 2002 and all shares will be released by September 10, 2008.

**(e)** Per share amounts:

The weighted average number of common shares outstanding for the years ended November 30, 2003 and November 30, 2002 were 8,193,836 and 5,730,411, respectively.

## 6. COMMITMENTS:

The company leases its premises and equipment under various operating leases. Minimum annual rental payments to the end of the lease terms are as follows:

| | | |
|---|---|---|
| 2004 | $ | 52,700 |

The annual lease payments are exclusive of maintenance, property taxes, insurance and other operating costs.

Effective April 1, 2002, Miraculins has entered into a one-year research agreement with the University of Manitoba. This agreement allows Miraculins to use certain equipment owned by the University of Manitoba based on usage with no minimum amount. The agreement was extended by one year by letter of agreement. There were no payments made regarding this agreement in fiscal 2003.

Effective June 1, 2002, Miraculins entered into two consulting services agreements. The company is committed to pay $12,500 per annum to each consultant. In the year ending November 30, 2003, the company paid $12,500 to each of the consultants. The agreements shall be automatically renewed for succeeding terms of one year on terms to be mutually agreed upon by the parties.

Effective November 1, 2002, Miraculins entered into a consulting services agreement with an officer and director of the company. The company is committed to pay $4,166 per month or $50,000 per annum. The agreement shall be automatically renewed for succeeding terms of one year on terms to be mutually agreed upon by the parties.

On September 15, 2002, the company entered into a business and administration services agreement with Genesys Venture Inc. The company is committed to pay $2,500 per month or $30,000 per annum. The agreement shall be automatically renewed for succeeding terms of one year on terms to be mutually agreed upon by the parties.

## 7. INCOME TAXES:

Significant components of the company's future tax assets are as follows:

| | | 2003 | | 2002 |
|---|---|---|---|---|
| Future tax assets: | | | | |
| Non-capital loss carry-forwards | $ | 154,354 | $ | 101,010 |
| Scientific research and experimental development | | 89,934 | | – |
| Share issue cost | | 28,019 | | 29,228 |
| Other | | 3,774 | | 2,736 |
| | | 276,081 | | 132,974 |
| Less valuation allowance | | 276,081 | | 132,974 |
| | $ | – | $ | – |

The reconciliation of the Canadian statutory rate to the income tax provision is as follows:

| | | 2003 | | 2002 |
|---|---|---|---|---|
| Canadian federal and provincial income taxes at 40.12% (2002 - 42.62%) | $ | (169,285) | $ | (63,883) |
| Change in rates | | 7,660 | | – |
| Add permanent differences | | 18,518 | | 1,367 |
| | | (143,107) | | (62,516) |
| Less valuation allowance | | 143,107 | | 62,516 |
| | $ | – | $ | – |

At November 30, 2003, the company has the following available for application in future years:

- unutilized Canadian non-capital loss carried forward balances for income tax purposes of $384,000 (2002 - $237,000), with expiry by 2010.
- unutilized scientific research and development expenditures of $224,000, with no expiry.
- scientific research and development investment tax credits of $44,000 which can be applied against income taxes otherwise payable, with expiry by 2013.

## 8. FINANCIAL INSTRUMENTS:

The fair values of cash and cash equivalents, goods and services tax and accrued interest receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short term to maturity.

## 9. RELATED PARTY TRANSACTIONS:

During the year ended November 30, 2003, the company paid Genesys Venture Inc., a company controlled by a director, a total of $126,151 (2002 - $31,736) for office rent, equipment rental and consulting fees. Of this amount, $42,401 (2002 - $12,986) is included in general and administration expenses and $83,750 (2002 - $18,750) is included in research expenses.

Also during the year ended November 30, 2003, the company incurred and recovered a total cost of $25,278 (2002 - nil) for custom research work performed on behalf of a company controlled by a director. Of this amount, $364 (2002 - nil) is included in general and administration expenses and $24,914 (2002 - nil) is included in research expense.

Included in research expenses, and in accounts payable and accrued liabilities at November 30, 2003, is $50,000 (2002 - $4,166) regarding consulting fees payable to a director.

## MANAGEMENT TEAM

**Phiet T. Bui, PhD**
President & Chief Scientific Officer

**April Manness, CGA**
Chief Financial Officer

**Marcus Enns, B.Comm. (Hons.)**
Vice President, Corporate Affairs

**Douglas S. Barker, PhD**
Research & Development Manager

## BOARD OF DIRECTORS

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President & CEO, Medicure Inc.

**Phiet T. Bui, PhD**
President, Miraculins Inc.

**David Filmon**
Partner, Aikins, MacAulay & Thorvaldson LLP

**Ted Paetkau**
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**Peter de Visser, CA (Nominated)**
Founding Partner, De Visser Gray
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